

**STATE OF DELAWARE**  
**OFFICE OF**  
**AUDITOR OF ACCOUNTS**

**CHRISTINA SCHOOL DISTRICT**

**CHILD NUTRITION PROGRAM**

**SPECIAL INVESTIGATION**

**FIELDWORK END DATE: DECEMBER 31, 2008**

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State of Delaware  
Office of Auditor of Accounts  
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**At a Glance**

*Working Hard to Protect YOUR Tax Dollars*

#### Why We Did This Review

The Office of Auditor of Accounts (AOA) received an allegation that the Christina School District (CSD) Child Nutrition Supervisor made personal purchases with Child Nutrition funds.

#### Background

CSD's Child Nutrition program is managed in accordance with The National School Lunch Act, policies established by the CSD Board of Education, the Department of Health, and the Delaware Department of Education.

School Districts within the State of Delaware are subject to routine reviews of Child Nutrition programs. During an audit of local school district funds for the District (which included CSD's Child Nutrition program), questionable transactions were identified by the audit firm and brought to the attention of AOA.

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## CHRISTINA SCHOOL DISTRICT CHILD NUTRITION PROGRAM

### What We Found

- The Director made \$4,048.85 in personal purchases.
- Transactions totaling \$5,062.33 lacked sufficient supporting documentation, of which \$3,614.64 was determined to be not for the benefit of the Child Nutrition program.
- Computer equipment was purchased with Child Nutrition funds. The District was unable to locate the Director's laptop and other computer related equipment totaling \$2,151.25.
- The Secretary for the Child Nutrition program indicated that the Director wrote 7 personal checks to CSD as reimbursement for his personal expenses. However, the Secretary was only able to produce documentation supporting 4 of the checks for a total of \$4,316.35. CSD did not have support for 3 checks totaling \$497.17. The 4 reimbursements reviewed, totaling \$4,316.35, were all made in October 2008.
- A lack of sufficient internal controls within CSD's Child Nutrition program resulted in a net loss of \$5,498.39.
- Noncompliance with policies and procedures.
- Inadequate internal controls.
- Improper purchases of gift cards totaling \$600.

### What We Recommend

The District should:

- Require that the Director repay the District the remaining balance of \$5,498.39.
- Strengthen internal controls, including management review and segregation of duties.
- Require adherence to policies and procedures.
- Maintain adequate, proper supporting documentation.
- Make deposits timely.

**Please read the complete report for a full list of findings/recommendations and to review the District's response to our findings.**

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# AUDIT AUTHORITY

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Title 29, Del. C. c. 29 authorizes the Auditor of Accounts to file written reports containing:

1. Whether all expenditures have been for the purpose authorized in the appropriations;
2. Whether all receipts have been accounted for and paid into the State Treasury as required by law;
3. All illegal and unbusinesslike practices;
4. Recommendations for greater simplicity, accuracy, efficiency, and economy; and
5. Such data, information, and recommendations as the Auditor of Accounts may deem advisable and necessary.

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# ALLEGATION AND BACKGROUND

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## **ALLEGATION**

The Office of Auditor of Accounts (AOA) received an allegation that the Christina School District (CSD) Child Nutrition Supervisor made personal purchases with Child Nutrition funds.

## **BACKGROUND**

CSD is Delaware's largest public school system, serving approximately 17,000 students.

CSD's Child Nutrition program is committed to providing well-balanced meals that contribute to the health and well being of the students. The Child Nutrition program provides breakfast and lunch in all K-6 buildings within CSD as well as lunch in all of the CSD's secondary school buildings.

The program is managed in accordance with The National School Lunch Act, policies established by the CSD Board of Education, the Department of Health, and the Delaware Department of Education.

School Districts within the State of Delaware are subject to routine reviews of Child Nutrition programs. During an audit of local school district funds for the District (which included CSD's Child Nutrition program), questionable transactions were identified by the audit firm and brought to the attention of AOA.

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# OBJECTIVES, SCOPE, & METHODOLOGY

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## **OBJECTIVES**

The objectives of the investigation were:

1. To determine the total amount of theft of funds, and
2. Identify control weaknesses that allowed the theft to occur.

## **SCOPE**

The scope of the investigation was July 1, 2007 through October 15, 2008.

The investigation was performed in accordance with the President's Council on Integrity and Efficiency, *Quality Standards for Investigations*.

## **METHODOLOGY**

Investigative techniques included:

- Interviews and inquiry.
- Inspection and confirmation of documentation.

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# CONCLUSIONS

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## ALLEGATION

CSD's Child Nutrition Supervisor made personal purchases with Child Nutrition funds.

## RESULTS OF TESTING

A lack of sufficient internal controls within CSD's Child Nutrition program resulted in a net loss of \$5,498.39.

AOA determined that the Supervisor had access to the Child Nutrition bank account including a debit card for the account. AOA reviewed activity in the account for the period of July 1, 2007 through October 15, 2008 and found the following:

- The Director made \$4,048.85 in personal purchases:

### **PERSONAL PURCHASES**

<b>Item</b>	<b>Amount</b>
Personal Vehicle Repairs	\$ 913.50
Gasoline	90.00
Restaurants and Food	994.25
Travel Purchases	642.08
ATM Withdrawals	345.75
Traffic Fines	365.00
Miscellaneous	698.27
<b>Total</b>	<b><u>\$ 4,048.85</u></b>

- Transactions totaling \$5,062.33 lacked sufficient supporting documentation. After reviewing the vendor names, type of purchases, and discussing with CSD representatives, AOA determined that purchases totaling \$3,614.64 were not for the benefit of the Child Nutrition Program.
- Computer equipment was purchased with Child Nutrition funds. The District was unable to locate the Director's laptop and other computer related equipment totaling \$2,151.25.
- The Secretary for the Child Nutrition program indicated that the Director wrote 7 personal checks to CSD as reimbursement for his personal expenses. However, the Secretary was only able to produce documentation supporting 4 of the checks. CSD did not have support for 3 checks totaling \$497.17. The 4 reimbursements reviewed, totaling \$4,316.35, were all made in October 2008.

### **ADEQUATELY SUPPORTED CHECKS/DEPOSITS**

<b>Date of Deposit</b>	<b>Amount</b>
10/17/2008	\$1,113.35
10/28/2008	1,000.00
10/28/2008	1,000.00
10/28/2008	1,203.00
<b>Total</b>	<b><u>\$4,316.35</u></b>

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# CONCLUSIONS

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The total net loss to CSD during the period of July 1, 2007 through October 15, 2008 is as follows:

**CALCULATION OF NET LOSS TO DISTRICT**

Personal Purchases	\$4,048.85
Lack of Documentation	3,614.64
Missing Computer Equipment	2,151.25
<b>Loss to District, Gross</b>	<b>\$9,814.74</b>
Less: Reimbursements made (as noted above)	4,316.35
<b>Loss to District, Net</b>	<b><u>\$5,498.39</u></b>

**CONCLUSION**

Allegation is substantiated.



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# FINDINGS AND RECOMMENDATIONS

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## **Finding #1 – Employee Expense Reimbursement Policy**

### **Criteria**

CSD Personal Reimbursement and Travel Expense Policy states, "To obtain a personal reimbursement, an employee must complete a personal expense reimbursement form and attach written authorization from the Chief Financial Officer or designee."

### **Condition**

The Child Nutrition Director did not complete personal expense reimbursement forms nor did he require Child Nutrition staff to complete the forms.

### **Cause**

The Director's disregard for District policy.

### **Effect**

Noncompliance with District policy, improper purchases, and theft of Child Nutrition funds.

### **Recommendation**

CSD, Child Nutrition Services should comply with district policy and require employees to complete an expense reimbursement form with all personal reimbursements.

### **Auditee Response**

Christina School District has an established Employee Expense Reimbursement Policy which has been distributed and reviewed with all Business Unit Leaders, and is available to all employees on the District Intranet site. This policy includes requirement for supervisor approval and approval by the Chief Financial Officer or his designee. Additionally, instructions and required forms are available through this website. No area of the District is exempt from this requirement.

## **Finding #2 – Inconsistent Gas Purchases**

### **Criteria**

CSD travel policy states, "The use of privately owned vehicles for out-of-state travel shall require prior approval of the appropriate agency approval authority. Reimbursement of private vehicle expenses shall be at the rate of 40 cents per mile for actual and necessary miles traveled."

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# FINDINGS AND RECOMMENDATIONS

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## **Condition**

For the period of July 1, 2007 through October 15, 2008 AOA determined:

- Child Nutrition funds were used to reimburse staff for \$762.13 in purchases of gas for personal vehicles. Child Nutrition staff indicated that staff would submit receipts for gasoline purchases attributable to business use. However, mileage logs were not provided and the reimbursements were not in accordance with District policy.
- Fuelman purchases totaling \$411.42 were made during non business hours. Documentation such as mileage logs were not maintained; hence, AOA could not determine who made the purchase and for what purpose the travel was related.

## **Cause**

Lack of controls within the Child Nutrition program and the Director's disregard for District Policy.

## **Effect**

Unsupported gasoline purchases, noncompliance with District policy, and improper use of District funds.

## **Recommendation**

The Child Nutrition program should adhere to the established travel policy set forth by CSD.

## **Auditee Response**

Christina School District has an established travel policy which addresses the mileage reimbursement for use of personal vehicles. Both a mileage log and a standardized mileage chart for travel between district facilities is provided on the District Intranet site. No area of the District is exempt from this requirement. The practice of reimbursement for purchase of gas for personal vehicles is not within District Policy. Use of the Fuelman account is limited to District Vehicles. Review of this account will occur on a regular basis to assure that only District operated vehicles are utilizing the Fuelman account.

## **Finding #3 – Untimely Deposits**

### **Criteria**

The State of Delaware *Budget & Accounting Manual* states, "The handling of cash receipts requires close control in each agency. While the exact audit requirements for processing cash receipts may vary among the agencies, certain basic procedures will be followed:

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# FINDINGS AND RECOMMENDATIONS

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- All monies which belong to the State are to be deposited on the day of receipt to the credit of the State Treasurer in the designated depository of the State's funds, with the exception of those funds received after the close of normal banking hours or when an agency receives less than \$100 in daily receipts. Those agencies which do receive less than \$100 in daily receipts, shall make a deposit when the accumulated undeposited receipts exceed \$100 or on a weekly basis, whichever occurs first. When monies are received after the close of normal banking hours, they shall be deposited on the next business day. However, if the receipts are of a significant magnitude, arrangements should be made for after-hours deposit (29 Del. C. §6103)."

## **Condition**

Reimbursement checks submitted to CSD by the Child Nutrition Director were not deposited in a timely manner.

## **Cause**

Weak internal controls and lack of knowledge of good accounting practices.

## **Effect**

Loss of potential interest income and the potential for misappropriation of funds.

## **Recommendation**

Deposits should be made in accordance with the State of Delaware *Budget & Accounting Manual*.

## **Auditee Response**

District has reminded the Financial Secretary at Child Nutrition Services that all checks must be deposited on the day of receipt. Cash Deposits are delivered to the Bank on a daily basis. A separate deposit for checks received directly by Child Nutrition Services will be made in accordance with policies. The District has an established policy addressing Internal Accounts for funds received by Schools. This policy calls for the school secretary to forward all monies on a daily basis to Business Services for processing. This policy will be modified to include a special section on deposits made by Child Nutrition Services.

## **Finding #4 – Unbudgeted Events**

### **Criteria**

Child Nutrition prepares a report each year of budgeted expenses. This report is submitted to CSD's Chief Financial Officer (CFO). The report should be inclusive of events and expenses, to provide the CFO with an accurate portrayal of budgeted expenses.

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# FINDINGS AND RECOMMENDATIONS

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## **Condition**

Child Nutrition hosted two non-billable events during the period of July 1, 2007 through October 15, 2008 in which \$870.48 was spent in costs. Neither of the events was included in the annual budget and there was no documentation to substantiate that the budget was consulted prior to deciding to host the events.

## **Cause**

The Director decided to host the events after the budget was developed.

## **Effect**

Purchases were made that were not in accordance with the approved budget. Purchases for non-budgeted items could result in budget overruns.

## **Recommendation**

For purchases outside of the budget, Child Nutrition should notify the CFO, maintain documentation to support that sufficient funds exist, that budgeted items will still be met, and that necessary approvals were obtained.

## **Auditee Response**

The mission of Child Nutrition Services is to provide healthy meals at all District school buildings; the Brennan and Sterck Schools; and alternative programs Parkway Academy and Kingswood Academy. The program does minor catering events for events held within the Schools.

"The Farmer and the Chef" event was sponsored by the March of Dimes in conjunction with the New Castle County "Buy from Your Neighbor Program." The Supervisor of Child Nutrition Services (referred above as Director) represented to District Leadership that the event required no district funds for participation. The District would not have approved participation in this event (or the second event "Art Auction") had District Leadership been informed that funding was required.

The Budget submitted to the District by Child Nutrition Services is not event driven. District approval by the Assistant Superintendent of Administrative Services and the Assistant Superintendent/CFO is now required for any activity not in direct alignment with the mission of Child Nutrition Services.

## **Finding #5 – Employee Recognition Purchases**

### **Criteria**

The Office of Management and Budget Statewide Recognition and Awards, *Guidelines for the Development and Implementation of Agency Employee Recognition Plans* states, "Cash, gift certificates, or gift cards are **not** permitted" as an allowable recognition expenditure.

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# FINDINGS AND RECOMMENDATIONS

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## **Condition**

Child Nutrition spent a total of \$2,249.60 in employee recognition items (e.g. end of year appreciation gifts for employees) of which \$600.00 was gift card purchases during the period of July 1, 2007 through October 15, 2008.

## **Cause**

Management was unaware of OMB's policy regarding the allowable use of gift cards as a recognition expenditure.

## **Effect**

Noncompliance with OMB's policy and improper use of Child Nutrition funds.

## **Recommendation**

CSD's Child Nutrition program should comply with OMB's policy.

## **Auditee Response**

The Christina School District does not currently have a written policy regarding Employee Recognition Purchases. It has been our practice over the past several years *not* to permit the use of District funds for this purpose, and the Supervisor (referenced above as Director) of Child Nutrition Services received no District authorization to spend District Funds in this manner. The Christina School District will develop a written policy for employee recognition along the guidelines suggested in OMB's *Guidelines for the Development and Implementation of Agency Employee Recognition Plans*.

## **Finding #6 – Loss**

### **Criteria**

The Committee of Sponsoring Organizations of the Treadway Commission's report Internal Control - Integrated Framework identifies segregation of duties as a control activity where "Duties are divided, or segregated, among different people to reduce the risk of error or inappropriate actions . . . An appropriate segregation of duties often appears to present difficulties in smaller organizations, at least on the surface. Even (entities) that have only a few employees, however, can usually parcel out their responsibilities to achieve the necessary checks and balances." Segregation of duties is also identified as a monitoring activity. "Appropriate organizational structure and supervisory activities provide oversight of control functions and identification of deficiencies . . . Also, duties of individuals are divided so that different people serve as a check on each other. This is also a deterrent to employee fraud since it inhibits the ability of an individual to conceal his or her suspect activities."

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# FINDINGS AND RECOMMENDATIONS

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Federal funds are received by the State for the Child Nutrition Cluster, federal CFDA numbers 10.553, 10.555, 10.556, and 10.559. To be allowable under federal awards, costs must meet the following general criteria (A-87, Attachment A, paragraph C):

- Be necessary and reasonable for proper and efficient performance and administration of Federal awards. A cost generally recognized as ordinary and necessary for the operation of the governmental unit or the performance of the Federal award.
- Be allocable to Federal awards under the provisions of the Circular. A cost is allocable to a particular cost objective if goods and services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.
- Be consistent with policies, regulations, and procedures that apply uniformly to both Federal awards and other activities of the governmental unit.
- Be adequately documented.

## **Condition**

CSD's Child Nutrition program does not have adequate internal controls including management review and segregation of duties. A lack of sufficient internal controls within CSD's Child Nutrition program resulted in a net loss of \$5,498.39.

AOA determined that the Supervisor had access to the Child Nutrition bank account including a debit card for the account. AOA reviewed activity in the account for the period of July 1, 2007 through October 15, 2008 and found the following:

- The Director made \$4,048.85 in personal purchases.
- Transactions totaling \$5,062.33 lacked sufficient supporting documentation. After reviewing the vendor names, type of purchases, and discussing with CSD representatives, AOA determined that purchases totaling \$3,614.64 were not for the benefit of the Child Nutrition Program.
- Computer equipment was purchased with Child Nutrition funds. The District was unable to locate the Director's laptop and other computer related equipment totaling \$2,151.25.
- The Secretary for the Child Nutrition program indicated that the Director wrote 7 personal checks to CSD as reimbursement for his personal expenses. However, the Secretary was only able to produce documentation supporting 4 of the checks. CSD did not have support for 3 checks totaling \$497.17. The 4 reimbursements reviewed, totaling \$4,316.35, were all made in October 2008.
- Funds in the bank account reviewed included both local school district and federal funds received by the State of Delaware under the Child Nutrition Cluster program. We were unable to determine the portion of the unauthorized expenditures or the net loss to the District that is related to federal or local funds, since the monies within this account are commingled, and expenditures from the account are not marked as to source of funding.

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# FINDINGS AND RECOMMENDATIONS

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## **Cause**

The Director's intentional disregard for established policies and procedures as well as an insufficient review at the District Office level.

The District did not ensure that all transactions were properly reviewed for allowability and properly documented and/or did not maintain documentation to support the transaction.

## **Effect**

The lack of adequate internal controls resulted in a theft of funds, unsupported purchases, and noncompliance with policies and procedures.

Review of transactions prior to processing (as evidenced by signature on the transaction document) is the primary control regarding the allowability of costs charged to federal awards.

## **Recommendation**

CSD should strengthen internal controls. The following should be considered in order to strengthen controls:

- Monthly bank reconciliations should be performed outside of the Child Nutrition Office.
- Provide additional management oversight for all Child Nutrition operations.

The District should adhere to established policies and procedures to ensure that transactions are appropriately approved in accordance with State and District policy and that appropriate supporting documentation is maintained with all processed transactions.

In addition, the District should require repayment from the Director for the remaining net loss (\$5,498.39).

## **Questioned Costs**

The questioned costs associated with this finding are undeterminable as there is no record maintained by the District as to the source of funding (i.e. local or federal) used to pay for the questionable expenditures noted in the Child Nutrition program bank account, but the questioned costs could be no more than the total questionable expenditures noted of \$9,814.74.

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# FINDINGS AND RECOMMENDATIONS

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## **Auditee Response**

The District will require the repayment of \$5,498.39 from the Supervisor (referred to above as Director) of Child Nutrition Services.

The Christina School District has taken steps to tighten the internal controls over Child Nutrition Services. On a monthly basis the Business Office will:

- Review bank statements prior to reconciliation and identify items requiring support documentation.
- Review the bank reconciliations.
- Review Fuelman Account.
- Review use of Debit Card, to assure usage is limited to emergency purchases or purchases with pre-approval documentation.

Additionally, the District Business Office will review the monthly profit and loss statement of Child Nutrition Services and review performance against budget.



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# DISTRIBUTION OF REPORT

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Copies of this report have been distributed to the following public officials:

Executive

The Honorable Jack A. Markell, Governor, State of Delaware

Legislative

The Honorable Russell T. Larson, Controller General, Office of the Controller General

Other Elective Offices

The Honorable Joseph R. Biden III, Attorney General, Office of the Attorney General

Other

Dr. Freeman Williams, Acting Superintendent, Christina School District

Dr. John Marinucci, Director, Financial Management, Department of Education

Mr. James R. Durr, President, Christina School Board